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August 25, 2006

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The Honorable Charles L.A. Terreni
Chief Clerk/Administrator
Public Service Commission of South Carolina
101 Executive Center Drive
Columbia, South Carolina 29210

RE: Application of United Utility Companies, Inc. for adjustment of rates and charges and modifications to certain terms and conditions for the provision of water and sewer service; 2006-107-W/S

Dear Mr. Terreni,

As you are aware, on August 23, 2006, United Utility Companies, Inc. ("UUC") and the South Carolina Office of Regulatory Staff ("ORS") filed an Explanatory Brief and a Joint Motion to establish a settlement hearing in the above-captioned proceeding and to approve the settlement agreement executed by UUC and ORS included therein as Attachment "A" ("Settlement Agreement"). At the time of the filing, the other parties of record in this proceeding, North Greenville University ("NGU") and Greenville Timberline SC, LLC ("GTSC"), had not yet conveyed their approval.

Thereafter, on August 24, 2006, NGU filed a letter with the Commission stating that it agreed with the terms and conditions set forth in the Settlement Agreement. By way of an email to Dr. David Butler, GTSC's attorney of record in this proceeding, Mr. George Lyall, informed the Commission that GTSC also consented to the agreement.

Given these recent communications, UUC believes it is appropriate to amend the Settlement Testimony of Converse A. Chellis, III, included as Exhibit "E" to the Settlement Agreement, in order to properly reflect that all parties of record have agreed to settle this matter. Additionally, UUC would take this opportunity to correct improper headings of the "Settlement Testimony" filed by Mr. Chellis and Dr. B.R. Skelton, included as Exhibit "F" to the Settlement Agreement. In each Exhibit, the witnesses' testimonies were inadvertently referred to as "Rebuttal Testimony." ORS has reviewed the proposed revisions and I am informed they have consented to amending said exhibits.

Continued . . .

The Honorable Charles L.A. Terreni

August 25, 2006

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Enclosed, please find revised versions of both Exhibits "E" and "F." UUC would request that the Commission substitute these revised exhibits for Exhibits "E" and "F" originally filed with the Settlement Agreement. Thank you for your assistance with this matter. If you have any questions, or if I can be of any assistance, please do not hesitate to contact me.

Sincerely

WILLOUGHBY & HOEFER, P.A.

A handwritten signature in black ink, appearing to read "Ben Mustian", with a long horizontal flourish extending to the right.

Benjamin P. Mustian

Enclosure

cc: Shannon B. Hudson, Esquire
Nanette S. Edwards, Esquire
Duke K. McCall, Jr., Esquire
Jacqueline H. Patterson, Esquire
George K. Lyall, Esquire

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2006-107-W/S

IN RE:

Application of United Utility Companies,
 Inc. for adjustment of rates and charges
 and modifications to certain terms
 and conditions for the provision of
 water and sewer service.

SETTLEMENT TESTIMONY
OF
CONVERSE CHELLIS

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is Converse A. Chellis, III. I am a Certified Public Accountant ("CPA") and a principal in and the Director of Litigation Services and Property Tax Services for Gamble Givens & Moody, LLC, a public accounting firm with offices in Charleston, Kiawah Island, and Summerville, South Carolina. My office is located at 133 East First North Street, Suite 9, Summerville, South Carolina 29483.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A. In 1965, I graduated from The Citadel, The Military College of South Carolina with a bachelor's degree in business administration. I also have completed graduate level courses in accounting at the University of Georgia. In addition, I have had a minimum of forty (40) hours of continuing professional education ("CPE") each year since 1969, for a total of at least 1,440 total CPE hours.

Q. PLEASE DESCRIBE YOUR WORK HISTORY AND PROFESSIONAL EXPERIENCE PRIOR TO YOUR CURRENT POSITION.

1 A. Upon graduation from The Citadel in 1966, I served in the United States Air
2 Force and was assigned to the Auditor General's staff. In 1969, I joined Touche Ross
3 (now Deloitte and Touche) and was a senior accountant. I formed Chellis and Chellis in
4 1972, and have been a name partner and managing partner in several accounting firms
5 until 1998. In 1999, I merged my firm with Gamble Givens & Moody, where I am a
6 principal and Director of Litigation Services.

7 **Q. ARE YOU A MEMBER OF ANY PROFESSIONAL ASSOCIATIONS?**

8 A. Yes. I am a member of the American Institute of Certified Public Accountants
9 ("AICPA"). From 1983-1985, I served on AICPA's continuing education executive
10 committee, and in 1985 I served on the AICPA council.

11 I am also a member of the South Carolina Association of Certified Public
12 Accountants ("SCACPA"). I served as Vice-President of the SCACPA's Coastal Chapter
13 in 1977-78 and as President in 1978-79. In 1985 I served as the State President of the
14 SCACPA, having previously served on the state level as Vice-President,
15 Secretary/Treasurer, and Director. I have also been Chairman of the SCACPA's
16 Committee on Continuing Professional Education, Chairman and trustee for the
17 SCACPA's educational fund, and Chairman of the SCACPA's Committee on
18 Cooperation with Governmental Agencies.

19 From 1986-1994, I was a member of the State Board of Accountancy, where I
20 served as Secretary/Treasurer from 1988-1990 and Chairman from 1990-1993.

21 From 1982-1998, I was a member of Accounting Firms Associates, inc. I am also
22 a past member of the American Society of Appraisers, and a current member of the

1 American College of Forensic Examiners. In addition, I am a past associate in the
2 Municipal Finance Officers Association, and I have held various offices in the National
3 Association of Accountants. I am also active in the peer review process, which involves
4 examination of the work of other accountants and accounting firms to assure that quality
5 controls are being applied in conformance with the Quality Control Standards adopted by
6 the AICPA.

7 **Q. HAVE YOU EVER GIVEN ANY PRESENTATIONS TO OTHER**
8 **ACCOUNTANTS OR AUDITORS?**

9 A. Yes. I have been a speaker and an instructor for the accounting profession on a
10 number of accounting topics, including topics related to generally accepted accounting
11 principles ("GAAP").

12 **Q. HAVE YOU EVER BEEN QUALIFIED AS AN EXPERT WITNESS IN A SOUTH**
13 **CAROLINA COURT?**

14 A. Yes. I have been qualified as an expert witness in both the circuit and family
15 courts of South Carolina. I have also given testimony before this Commission and other
16 administrative agencies.

17 **Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY?**

18 A. The purpose of my settlement testimony is to support the adoption of the
19 Settlement Agreement reached between United Utility Companies, Inc., or "UUC", the
20 South Carolina Office of Regulatory Staff, or "ORS", and the other parties of record in
21 this case.

1 **Q. IN YOUR OPINION, IS THE SETTLEMENT AGREEMENT A REASONABLE**
2 **MEANS OF RESOLVING THE ISSUES IN THIS CASE?**

3 A. Yes, it is.

4 **Q. WHAT IS THE BASIS FOR YOUR OPINION IN THIS REGARD?**

5 A. I have several reasons for believing that the Settlement Agreement is a reasonable
6 means by which to resolve the disputed issues in this case. First, one of the statutory
7 duties of ORS is to facilitate the resolution of disputed issues involving matters within the
8 jurisdiction of the Commission. I think it incumbent upon the other parties in cases
9 before the Commission to work with ORS in good faith in an attempt to reach a
10 settlement. I believe that the Settlement Agreement reflects a good faith effort on the
11 parties of record in this proceeding to meet their respective obligations in that regard.

12 Second, and as Dr. Skelton mentions in his testimony in support of the Settlement
13 Agreement, capital markets recognize the value of settlements in ratemaking cases.
14 Additional investment resulting from favorable capital markets would be an enhancement
15 to economic development in South Carolina which is consistent with the public interest.

16 Third, a settlement brings the matter to an end without delay and the uncertainty
17 of further proceedings; this in turn permits ORS to focus its talents and resources on other
18 matters within its area of responsibility and permits the Company to focus upon the
19 continued improvement and expansion of its facilities and services for the benefit of its
20 customers.

In summary, the comprehensive settlement proposed by the parties in my opinion fairly balances the interest of the customers and the Company. I therefore respectfully urge that the Commission approve the Settlement Agreement.

Q. DOES THIS CONCLUDE YOUR SETTLEMENT TESTIMONY?

A. Yes it does.

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2006-107-W/S

IN RE:)
)
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 Inc. for adjustment of rates and charges)
 and modifications to certain terms)
 and conditions for the provision of)
 water and sewer service.)
 _____)

SETTLEMENT TESTIMONY
OF B.R. SKELTON Ph.D.

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

2 **A.** My name is B. R. Skelton and my business address is 2962 Walhalla Highway,
 3 Six Mile, South Carolina 29682. I am Professor *Emeritus* of Economics at Clemson
 4 University and am engaged in a variety of private business endeavors, including real
 5 estate brokerage and residential construction. I also act as a mediator and arbitrator.
 6 Since 1974, I have mediated 190+ disputes and written decisions in over 1000 arbitration
 7 cases, mostly union-management grievances. I have also arbitrated deferrals from the
 8 courts and the NLRB.

9 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
 10 **PROFESSIONAL EXPERIENCE.**

11 **A.** I received my B.S. degree in Arts & Sciences (History & Economics) from
 12 Clemson University in 1956. In 1958, I received a Masters of Science degree in
 13 Agricultural Economics from Clemson University. I received my Ph.D. in Economics
 14 from Duke University in 1964.

1 From 1959 to 1987, I was a professor of Economics at Clemson except for 1961-
2 63 when I was in graduate school at Duke University. In addition to teaching standard
3 economic theory, my academic background includes writing, lecturing and research in
4 the areas of labor economics, economic development and arbitration. While at Clemson,
5 I was a member of the Southern Economics Association and American Economic
6 Association. I was also a member of the Arbitration Panel of the Federal Mediation and
7 Conciliation Service and the American Arbitration Association. I retired from Clemson
8 in 1987.

9 **Q. PLEASE DESCRIBE YOUR WORK IN THE REAL ESTATE FIELD.**

10 **A.** Over time I have developed subdivisions, commercial property, apartments and
11 bought and sold real estate of all types.

12 **Q. DO YOU PROVIDE ANY CONSULTING SERVICES?**

13 **A.** I have served as a consultant to various individuals and companies, mostly
14 wrongful death and injury, divorce, product liability and valuation of business losses. I
15 was President of Economic Research and Consulting Associates prior to 1980, the
16 business that provided this analysis. I have testified before the PSC in one case involving
17 a water company in Oconee County.

18 **Q. DO YOU HOLD ANY OTHER PROFESSIONAL DESIGNATIONS?**

19 **A.** Yes. I am a mediator and arbitrator and am licensed by the State of South
20 Carolina as both a real estate broker and residential contractor. I am also an elected
21 member of the National Academy of Arbitrators and have been a member since 1981.

22 **Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY?**

1 A. The purpose of my testimony is to provide support for the Settlement Agreement
2 entered into by the parties in the proceeding on August 23, 2006. Specifically, I will be
3 testifying as to the reasons why the 9.40% Return on Equity ("ROE") agreed to by the
4 parties is a reasonable ROE for the Company in the context of a comprehensive
5 settlement of this specific case and why the Commission should approve the proposed
6 settlement.

7 **Q. WHY, IN YOUR OPINION, IS THE SETTLEMENT ROE OF 9.40%**
8 **SUPPORTABLE AS A REASONABLE ROE FOR THE COMPANY IN THE**
9 **CONTEXT OF A COMPREHENSIVE SETTLEMENT AGREEMENT?**

10 A. In the context of the present settlement agreement, which disposes of all issues in
11 the case, rates set based upon a 9.40% ROE can provide investors the opportunity to earn
12 a reasonable return on the Company's capital investment. Based on my knowledge of the
13 capital market, and my understanding of its expectations related to regulated and non-
14 regulated returns in the present economic context, I believe that 9.40% is a sufficient
15 return which the capital market would expect in the context of a comprehensive
16 settlement.

17 **Q. WHY IS A SETTLEMENT IMPORTANT TO CAPITAL MARKETS?**

18 A. I believe that investors place great importance on the settlement of litigation
19 disputes involving any industry. I am aware from my experience in mediating and
20 arbitrating labor disputes that the capital markets in general react favorably to the
21 settlement of wage/benefit issues which comprise only one aspect of the overall financial
22 picture for non-regulated industries. Whether utility rate cases are settled or litigated is

1 even more important to investors in the utility industry as these cases involve every
2 aspect of the financial picture of a utility and therefore figure prominently in analysts'
3 reports and evaluations of these cases. The settlement of a rate case is therefore a factor
4 that strongly influences the capital market's assessment of the regulatory climate a utility
5 operates in. The capital market sees settlements as an indication of a cooperative
6 relationship between a utility and its regulators and the other participants in the
7 regulatory process. Given this, I believe that this settlement should be approved.

8 **Q. IN YOUR OPINION, ARE THERE OTHER REASONS WHY THE**
9 **COMMISSION SHOULD APPROVE THE SETTLEMENT PROPOSED BY THE**
10 **PARTIES IN THIS CASE?**

11 A. Yes. I believe that administrative economy supports Commission approval of the
12 proposed settlement and that settlements should be favored since they reflect a solution
13 devised by the parties which is more likely to address their needs.

14 **Q. WOULD YOU ELABORATE ON THAT STATEMENT?**

15 A. Yes. The Commission has scarce resources available to be used in the discharge
16 of its duties. These are important duties which have been delegated to the Commission
17 by the legislature. Settlement of this case will permit the Commission to focus its
18 resources on other matters within its purview. Further, in my experience as a mediator
19 and arbitrator, I have come to understand that part of the value of settling disputed
20 matters is that it results in a resolution more likely to fit the needs and circumstances of
21 the parties than does an imposed resolution. I believe that to be the case here.

22 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

1 A. Yes, it does.

2